About two weeks ago my son showed me a mob of full and faulty mouthed (that is aged but not decrepit) ewes. They were as fat as butter but, even so, he did not then know whether he could find anyone to take them off his hands for nothing. If he could not find what he euphemistically called 'a buyer', he was going to shoot them. Shooting sheep is a messy, costly, disheartening job---I have done it, but never to fat sheep.

Yet, shoot them he would. There is not much room for sentiment in agriculture right now. The old ewes have to make room for young weathers that will cut almost twice as much wool per acre. At the reserve price of 700 cents per kilogram less 25% wool levy (some of which, if you believe in fairies or Wool Corporation board members, you might get back) wool production still shows a better margin than any alternative use of the land.

The price of sheep has fallen far more dramatically than the price of wool. Putting British breed rams over old merino ewes to sell the XB progeny is an uncertain option open to only a few. Cattle are expensive and breeding doesn't show a return for some three years. At current interest rates cattle do not pay as well as weathers which are so cheap that the interest charge is minimal. What is more, on properties not well equipped to handle them, cattle are destructive brutes. Wheat prices have fallen by 40% raising break-even yields by as much: it is not the year to crop the marginal paddock. Take an unpaid holiday is good advice only if you have no overdraft and no staff. The banks won't take a holiday and your staff don't want to take one without pay.

So wool it must be. Yet, the Wool Corporation is still buying 60 -70% of every offering at the price of 700c/kg average.
The wool industry is being led by gamblers. These men, who, heaven help us, have the powers of Gosplan executives in the Soviet Union, are asking that the industry make the adjustments that will bring supply and demand back into kilter entirely on the supply side. The supply of wool is elastic, they say; growers will respond to lower prices; they have before. So growers have—when there have been profitable alternatives to growing wool. That is not the situation now!

Demand on the other hand is elastic because there are ready substitutes for wool. If the price of wool goes down it is, in fact, very easy to substitute some wool for some synthetics in the blend. The Wool Corporation’s own staff estimate that at a distance of eighteen months the price elasticity of wool is minus 1. In plainer English that means that, if the wool price is dropped by 1%, then, after the initial adjustments which would take eighteen months, 1% more wool will be taken by the trade than would otherwise be the case.

Elasticities are rarely linear—bigger price drops have bigger relative effects on demand. Some economists close to the trade believe that if the buyers’ price were dropped by 25%—the same proportion that growers are now being levied—then the market would clear. One was game to say that at 500 cents he would buy wool with his own money to hold against a future profit.

I am not that courageous, and so long as more than half a year’s clip is sitting in store I won’t be. But we need to clear every bale we can, because clearing this market is not just a matter of shooting a few cheap sheep won’t. It should be plain now that growers are far from wise to charge buyers a higher price than they themselves receive.

Of the many 'justifications' for the wool reserve the one that has best survived the stupidity of the past year is the idea that the Minister cannot, in the light of what he has said, again reduce it. I've heard it said that if Kerin were again to reduce the reserve price he would have to resign. I doubt the Opposition would even ask for his resignation and they certainly would not get it. In Australia, Ministers don't resign even when they should—that is when they have committed some impropriety. From self interest any political party, in any country, even when it should not, protects its potential leaders from resignation over matters that do not bear heavily on personal integrity or competence. And Kerin is a potential Labor leader, if not sooner, then later.

Kerin won't resign, nor should he. He has had to administer a badly flawed policy inherited from another (less wise) government of another party. Circumstances have changed radically since the 700 cent reserve was set and now to prejudice the whole Australian economy by maintaining it is irresponsible.

To state the obvious: if it is foreign stockholders whom the Australian Wool Industry Commissars do not wish to
prejudice, then of course they must oppose devaluation. Those few industry leaders who have simultaneously called for maintenance of the reserve and for devaluation might consider resignation, but from charity I will not press the point.

Back to the topic of my son’s farm, which I suspect is rather typical. He won’t be ceasing wheat production altogether and buying in cheap wethers to run on all his paddocks because, even at the current price, growing wheat can be profitable, if yields are high enough. And for the second year in three I am about to lose two cartons of beer to him betting against a record average yield.

I am losing all this beer for several reasons, apart from the obvious stupidity of betting against an expert. The most important of these is the advent of modern weed killers. These new chemicals have given farmers relatively clean crops, enabled them to sow two to three weeks earlier and, because less cultivation is required, allowed soil structure and moisture retention to be improved. If that were not the case, the situation that the Australian Wool Corporation and wool growers now face would be even more serious than it is. Think how serious it might be if instead of competing, scrabbling, greedy chemical companies, an Australian Weeds Corporation had kept the price of herbicides so high that half were not sold to the people who use them.

John Hyde is Executive Director of the Australian Institute for Public Policy.